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Eugene H. Cobaugh

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Church Accounting, Auditing, and Protection

by EUGENE H. COBAUGH
Principal, Miami Office

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Institute of Internal Auditors—June 1962*

IN RECENT YEARS many instances of embezzlement have arisen in business. Fortunately, not many flagrant examples of embezzlement have occurred in churches, but this is not because of lack of opportunity, for many church accounting systems are grossly inadequate. Too many times pastors, congregations, and councils take the position that the spiritual atmosphere surrounding churches precludes the necessity of treating their practical affairs as a business matter. No approach to this question could be more unrealistic, for many millions of dollars are being contributed each year in churches throughout the country. Therefore, it follows that anything less than a well-planned, adequate system including proper controls is depriving the church of the kind of financial stewardship it is entitled to receive. It is of course easier to talk about installing such a system than it is actually to do it.

Where does the pastor fit into this financial picture? Usually, he finds that the greatest part of his effort must be directed toward the spiritual growth of his congregation and that he must relegate to a secondary place the attention he might otherwise give to administrative and accounting matters. Bearing this in mind, we can readily understand why the responsibility then rests on the shoulders of the Board or Council to see that adequate stewardship of financial matters is maintained.

How can the duties of stewardship best be discharged? Many times the problem is simply a matter of fixing responsibility. In the area of counting the collection and preparing the deposit, some people have been known to become offended when the advisability has been suggested of having two persons present at all times until the deposit of the funds has been completed. Too many times church members take the position that if a member is elected to Council, is conscientious, and devotes his time, efforts, and resources to the business of the church, then it should follow that these controls are unnecessary. It is indeed unfortunate that they do not understand and realize that there exists a direct correlation between fraud and loose controls.

Often a church will decide that there should be dual signatures on checks. Unfortunately, this too often ends up with one of those authorized to sign simply affixing his signature to a number of checks in blank because it might not be convenient to do so at the time the check is prepared. If the question were asked, "Why do you require two signatures?" the answer very likely would be that there had been some trouble in the past and it was decided that it would be better to have two signatures on all checks. It is quite obvious that the benefit from dual signatures is only realized when both signers have functioned properly by approving disbursements through the examination of invoices or other approving documents.

FINANCIAL STATEMENTS OF CHURCHES

Why should it be necessary to keep records other than those that will produce the data needed by the people for their income tax returns? You would be surprised how many times that question is asked.

Some of the church bodies today require that specific records be maintained, even to a standard chart of accounts, and that periodic financial statements be prepared and submitted. Most, however, leave it up to the individual congregations to decide the extent and type of records to be maintained.

The end product containing the financial statements varies greatly among churches. Seldom do you see a balance sheet included in their reports. Many persons contend such statements are useless; however, it has been found that they are frequently desirable, especially so if a financing is impending.

Another type of statement is the plant fund statement, which includes all property and equipment, as well as liabilities of that fund.

The most common statement used is that for cash receipts and disbursements. This statement should be kept as simple as possible, but show the major categories of expenditures by types. Some such statements are nothing more than a transcript of the cash journal, listing in detail the date of the check, the payee, the check number, the amount of the check, and a spread to an expense or fund category. This type of presentation becomes so cumbersome as to be practically worthless to a reader.

Financial statements of churches frequently do not contain comparisons of actual as against budgeted receipts and disbursements or comparisons of the current year operations against the preceding year operations. Since it is customary for a financial committee to

prepare a budget, which is subsequently presented to the congregation for approval, it would certainly seem that the congregation has a need and a right to see the actual operations compared to the approved budget.

ACCOUNTING SYSTEM FOR A CHURCH

The accounting system for a church should provide a permanent historical record of transactions, and should be designed to assist in planning future budgets. The financial program, to be successful, should be the responsibility of several specifically designated persons. General records should be maintained by the treasurer. The individual contributors' records should be kept by the financial secretary. The handling of cash receipts should be under the direction of a finance committee, separate and apart from the financial secretary. Disbursements should be by authority of the governing body. The bank statements should be mailed direct to the auditing committee, who should be responsible for reconciling all bank accounts.

BASIC CONTROLS

For handling records and funds, written instructions are advisable, and for ensuring consistency of methods from year to year the instructions should be complete. Usually the treasurer is elected for a one-year term, so it is not uncommon to have a constant turnover of treasurers, some of whom may be untrained for this particular position.

The written instructions should include directions for preparing the budget, handling and recording cash, and financial reporting. These instructions should not be so rigid as to discourage a capable treasurer from making improvements. Rather they should provide assistance for those who are not trained in accounting and who might tend to go off the deep end and start making changes that might prove unwise.

Basically, budgets fall into one of two groups. One is called a unified budget. The second is a multi-purpose budget, which is separated among various funds, such as current or operating, benevolence, building, or transitory.

The single or unified budget may vary in two ways. If completely unified, all funds for organizations within the church pass through one treasurer; if not completely unified, all funds pass through various treasurers, depending on the organization within

the church. It is customary to use a unified budget for the activities of the congregation as a whole, each organization having its own treasurer.

After the budget has been prepared by the budget committee, the individual members should underwrite the budget by making pledges. These pledges, commonly in weekly amounts, are kept by the financial secretary.

The members having made their pledges should then evaluate the proposed disbursements in light of the pledges and proceed to adopt the budget. If the budget is greatly in excess of anticipated income, then a special fund-raising campaign must be undertaken or the activities of the church must be curtailed. The records of the members' accounts maintained by the financial secretary are primarily records of contributions received from members, for which many forms are available for use. The choice can be made from bound books, post binders, ledger cards, etc. In view of the amount of work required in this part of church accounting and the necessity for providing the contributor with a statement of his contributions, a method should be selected that will yield a carbon copy for removal and forwarding to the contributor on a quarterly, semi-annual, or annual basis.

The method selected should also provide the financial secretary with an alphabetical list showing each contributor and including his envelope number. Each contributor should be furnished at the beginning of each year with a set of prenumbered and predated envelopes for use in making contributions toward his pledge. For one reason or another many contributors refuse to write their names on their envelopes; they should be encouraged, however, to make this effort in order to reduce the possibility of error in recording the amount of their contribution.

Envelopes are available in the single, duplex, or triplex pocket design depending on whether a single or multi-purpose budget is in use. The single envelope is obviously the most convenient type of envelope to use.

The basic requirement for handling disbursements is that they be properly authorized. When the congregation approves the budget, approval is given for disbursements within that budget. The accounting system must provide the knowledge that disbursements are within that approval. Generally, no further approval is needed to pay the salaries and utilities, which are under contract.

SUPPLEMENTAL CONTROLS

Additional controls are needed for items purchased by individual staff members, although most purchasing is done by the secretary or pastor. Invoices should be sent to the church office, the secretary verifying receipt of the goods and indicating the fact on the face of the invoice by some predetermined form of acknowledgment. The invoices should then be turned over to the treasurer either for further presentation for approval by the Board or Council or for immediate payment if he has that authority. Checks should be used for all payments and should be prenumbered. The treasurer should have custody of all checks and sign all checks. If petty cash is used, regular petty cash vouchers should be required. Petty cash should be replenished by check supported by a voucher.

Although a general ledger is a useful and desirable feature, it usually is impractical owing to the lack of trained personnel. Monthly financial reporting taken from the cash journal is a source of cumulative data and in most cases should accomplish the desired end.

Even though the church is primarily interested in receipts and disbursements, financial reporting will be more complete if a balance sheet or statement of plant fund is included. These statements are especially important if there are liabilities.

SUPPLEMENTAL INFORMATION

Other interesting data might be presented with either interim or annual reports, which would possibly include a graphic presentation of contributions per member or family, disbursements per member or family, benevolences, building, and debt retirement.

CONCLUSION

The general run of church accounting systems are lacking in internal control over possible mistakes and fraud, and the financial reports flowing from that system are as a rule not clearly presented. A church accounting system should be a tool to provide adequate control over its funds at all times and should provide meaningful, easily understood financial reports, so that the governing body can properly discharge its financial stewardship. The means are readily available—what is needed is diligent effort to put the means to work.